

BEFORE THE INSURANCE COMMISSIONER  
OF THE STATE OF WASHINGTON

In the Matter of the Application regarding  
the Conversion and Acquisition of  
Control of Premera Blue Cross and its  
Affiliates.

No. G 02-45

PREFILED TESTIMONY OF  
KAREN PERDUE

I am Karen Perdue. I am the Associate Vice President for Health at the University of Alaska. I was named to this position in 2001 to help develop health and social sciences capacity throughout the University. The University is the statewide institution of higher learning with over 33,000 students in Fairbanks, Anchorage, Juneau and thirteen smaller campuses throughout Alaska. The University is one of the largest employers in the State of Alaska, with employees across the state.

I advise the President of the University and the Board of Regents on program development and funding of the health and human service education and research activities of the UA system. Under the guidance of University leadership, my office focuses intensively on increasing the supply of health professionals in Alaska. There is a tremendous shortage today and an increasing demand for all health professionals in Alaska.

Approximately 22% of the degrees awarded by the University of Alaska are in health –related areas. Approximately \$41 million in health related research is conducted at the University of Alaska.

PREFILED TESTIMONY OF KAREN PERDUE

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I have 23 years of experience in health and human services issues in Alaska, appointed by four governors to perform duties in state government. From 1994 to 2001, I served as the State of Alaska's Commissioner of Health and Social Services and directed the state's health programs. In that capacity, I directed Alaska's public health, child welfare, juvenile justice, public assistance, mental health and developmental disabilities and health care financing programs. I directed 2,000 employees and managed a budget of approximately \$1 billion dollars. For six years, I served as Deputy Commissioner of the Health and Social Services and was responsible for oversight of the state's Medicaid program and its public health responsibilities.

In my time in Alaska State government, I was involved in several major efforts to expand access and contain the costs of health care and to examine Alaska's health care system. In my role as overseer of the state's Medicaid program for 15 years, I directed the doubling of the Medicaid program, both in eligible recipients and dollars. These duties included expanding eligibility for children, pregnant women, seniors and the disabled. I directed the implementation of program expansions and cost management changes in most categories of health care benefits including acute care, pharmacy, pregnancy-related services, mental health services and community-based and long term care for elderly and disabled. I was centrally involved in the expansion of the primary care clinic program in Alaska from one clinic in Anchorage to a network of over a dozen across the state today. I implemented two separate statewide welfare reform efforts during my tenure including a fundamental examination of how Medicaid and other health benefits would be related to individuals on Medicaid and Medicare. I oversaw the

planning of a new multi-million dollar claims payment system for Medicaid, and the overhaul of the data system for public benefits determination.

I served, by executive appointment, on two statewide commissions to examine access and cost of health care to Alaskans. I have in the past and currently serve on several state and national boards relating to health matters, including the Alaska Public Health Association, the American Public Human Services Association, and currently the State Suicide Prevention Commission, and the national Fetal Alcohol Syndrome Center of Excellence program. I am a graduate of Stanford University.

Alaska is a land of extremes - a huge land mass rich in natural and human resources. Alaska's health status reflects these extremes with high rates of violence, injury and substance abuse. Alaska also has the youngest median age and ever-improving infant and child health status indicators. "Healthy Alaskans 2010," published by the State of Alaska, lays out an ambitious public health agenda for improving the health status of Alaskans. This is the document the University of Alaska uses to plan for meeting state needs. Alaska has many problems to overcome in achieving the health status goals set out in Healthy Alaskans 2010 including vast geographical distance, complicated demographic and ethnic aspects, diverse funding and health management systems and serious workforce shortages in virtually all health and human service professions.

As the State's only public institution of higher learning, the University of Alaska has a fundamental role in improving health status by providing trained health professionals, conducting basic and applied research and providing public service to its citizens. The University is the entity in the state most responsible for providing post

secondary opportunities to meet the workforce needs of the health care industry.

Currently, the University educates a large percentage of the health care professionals who enter Alaska's workforce, with the exception of physicians.

Demand dramatically exceeds supply. Like the rest of the nation, Alaska experiences acute shortages in critical occupations such as nursing, social work, psychology and allied health. The demand for health care workers in Alaska is expected to grow faster than any other economic sector in the next decade, over 74% by 2010. This growth is substantially more than the 24% growth in health employment the rest of the nation is expected to need. Thirteen of the fifteen fastest growing occupations are in health care.

Over the next several years, the UA system expects to invest significantly more money to meet this demand. Health care education is expensive, because of rigorous quality standards and because low faculty to student ratios must be met. In nursing ,for instance, UA will double its nursing graduates by 2006. The University will invest \$2.8 million in funds to match industry donations of an equal amount over the five year period. This year alone, the University is requesting \$200,000 in state funds and \$200,000 in tuition revenue to finance the expansion. This is the highest priority program expansion in the University of Alaska's request to the Legislature.

In the next five years, the University expects to continue to expand its health education offerings in the areas of nursing, behavioral health, allied health, public health and health care administration. The University is also embarking on an aggressive plan to expand its health research, focused on answering questions of interest and importance to state needs. Four years ago, Alaska ranked last in garnering National Institutes of

Health research dollars. Today, the University has \$48 million dollars in research and capacity grants, is hiring faculty and building science space to conduct this research.

The University is also a “consumer” of health insurance. The health care claims of the University’s 4000 benefit eligible employees and their dependents have been administered by Premera Blue Cross since 1995. The University is currently in a second consecutive five-year contract which will expire next year, in 2005. Last year, the University spent approximately \$24,000,000 for employee health benefits. According to the reports I have read, the conversion will likely result in a premium rate increase of from one to five percent. Increased costs will impair the University’s ability to fulfill its educational mission on behalf of the state. For instance, the University is committed to increasing the number of nurses in its training programs. The University currently receives approximately 40% of its funding from the state’s general fund through the legislative appropriation process. The Legislature has already indicated that it will not fund the University’s increasing contribution for its employee health benefits. An increase in the University’s costs without a corresponding increase in revenue has an impact on the programs that the University can offer to its 33,000 students.

My testimony also relates to specific conditions that the Commissioner should place on Premera if the conversion is approved. The conditions should include adequate economic assurances to protect the University and other consumers from conversion-related increases in rates or passed-on administrative expenses. I support an assurance period of longer than two years in order to reduce the conversion’s effect on the affordability of insurance coverage, whether that comes in insurance premiums or increased costs of administrative expenses.

As a citizen of the State, I am also concerned about how premium increases will affect the individuals and small groups who are insured by Premiera Blue Cross. PBC has high market shares in these segments (64 percent in the individual market and 54 percent in the small employer market, according to the Alaska Consultants' reports). These beneficiaries will have few other available companies to obtain coverage from, but can ill afford price increases to their premiums.

If more Alaskans are without insurance, this will have a deleterious effect on the health care infrastructure in Alaska. Most Alaskan communities have or are served by a sole community hospital. These hospitals must serve all residents whether they are insured or not. Growth in bad debt and charity care due to fewer people being insured could be very negative for small community hospitals in Alaska.

The other conditions I support relate to the allocation of the conversion proceeds and to the foundations that will be created if the conversion is approved. In order for the conversion to be fair and equitable, the conversion proceeds must be appropriately distributed between the states of Alaska and Washington for funding and support of health care initiatives. I have read the Reden & Anders and Signal Hill Capital reports and understand that these experts conclude that Alaska's share of the conversion proceeds should be in the range of 24 to 29.6%. The foundations must be structured so that they receive and realize fair value of the shares of Premiera stock and so that the value of the conversion proceeds is fairly distributed to address the health care needs of the residents of Washington and Alaska. For example, Alaska has severe shortages in several key health professions. I support appropriate funding for foundations that can improve the

availability of quality, affordable health care and related services, support the education and availability of health care providers, fund health care research and otherwise serve the public health care needs of Alaskans. Investments in health care education will not only ensure Alaskans are trained for good jobs, but also will serve to keep health care costs down because local residents are available for jobs. Currently, health care employers are spending health care dollars to import “travelers” or locum tenens professionals to meet licensing standards and service needs.

At this time, not all of the reports of the expert consultants are publicly available. I may have additional testimony when more information about the conversion is available.

I declare under penalty of perjury of the laws of the State of Alaska that the foregoing is true and correct.

Dated this 30<sup>th</sup> day of March, 2004.

/s/  
Karen Perdue